



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: John Stufflebean

**SUBJECT: MUNICIPAL WATER SYSTEM
COST STUDY**

DATE: May 20, 2008

Approved

Date

5/21/08

RECOMMENDATION

Accept this cost study confirming that transfers from the Consolidated Water System to the General Fund have been consistent with requirements contained in the San Jose Municipal Code.

BACKGROUND

On May 8, 2008, during the Operating Budget study session for the Environmental and Utility Services CSA, Councilmember Cortese requested information on the status of the cost study concerning transfers from the Municipal Water System to the General Fund, as directed by Council at the June 26, 2007 Council meeting.

ANALYSIS

In June 2003, the City Council enacted Ordinance 26903, amending Chapter 4.08 of Title 4 of the San Jose Municipal Code (Code), to ensure reasonable rates for customers receiving potable water service from the San Jose Municipal Water System (SJMWS). This ordinance specifically limited the amount of monies that could be transferred from SJMWS to the General Fund.

In October 2004, The City Auditor completed a report entitled "A Report on San Jose Municipal Water System Compliance with City Council Ordinance No. 26903," which is provided as Attachment A. The Auditor found that:

"SJMWS has limited Fund 515 transfers to the General Fund in accordance with the Code and

"The SJMWS has drafted policies and procedures and the City Auditor's Office has reviewed them for adequacy. We recommend that the SJMWS finalize its' procedures."

Consistent with the Auditor's recommendation, SJMWS finalized the procedures, which are provided as Attachment B.

In April 2007, the City Auditor completed another audit of the SJMWS titled "An Audit of the Municipal Water System Consolidated Water Utility Transfers" (Report 07-02), which is provided as Attachment C. During this audit the Auditor found:

"the San Jose Municipal Water System (SJMWS) transferred monies from the Consolidated Water Utility Fund (Fund 515) to the General Fund and maintained established reserve funds in accordance with the City of San Jose Municipal Code (Municipal Code). Specifically, during 2005-06 and 2006-07, the SJMWS adhered to Municipal Code requirements to limit fund transfers between Fund 515 and the General Fund and fully-fund two water system reserve funds."

On June 26, 2007 Council approved the recommendations made by Mayor Reed in a memorandum dated June 22, 2007 relative to the Municipal Water System Rate increase for 2007-08. Included in that recommendation was direction to staff "to complete a cost study to validate transfers from the SJMWS to the General Fund."

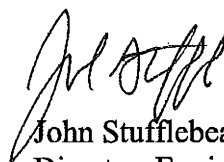
In response to the June 26, 2007 Council referral, staff has compiled the historical costs of the General Fund transfers, and compared these costs with the requirements and restrictions contained in the Municipal Code. This information has since been updated to reflect the transfers proposed in the FY 2008-09 Operating Budget, the last year these transfers are proposed to occur, and which is provided as Attachment D.

CONCLUSION

Consistent with the Auditor's previous findings, staff has confirmed that the Municipal Water System costs related to the transfers were consistent with the Municipal Code requirements contained in section 4.08.

COORDINATION

This MBA has been coordinated with the City Attorney's Office and the Budget Office.

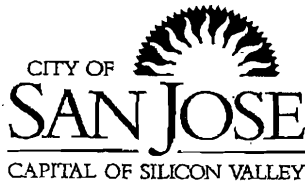


John Stufflebean
Director, Environmental Services

For questions, please contact Mansour Nasser, Deputy Director, at 277-4218.

ATTACHMENT A

MGWB COMMITTEE: 10/21/04
ITEM: F



Memorandum

TO: Making Government Work Better
Committee

FROM: Gerald A. Silva,
City Auditor

SUBJECT: *A REPORT ON SAN JOSE
MUNICIPAL WATER SYSTEM
COMPLIANCE WITH CITY COUNCIL
ORDINANCE NO. 26903*

DATE: October 4, 2004

Introduction

In accordance with the City Auditor's 2004-05 Audit Workplan, we have completed an audit of the San Jose Municipal Water System (SJMWS). Specifically, we reviewed SJMWS compliance with City Council Ordinance No. 26903. This is the first in a series of reports on the Municipal Water System. Subsequent reports will deal with management efficiencies and overhead charges to the system. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

Scope And Methodology

The objective of this audit was to determine whether the San Jose Municipal Water System (SJMWS) complied with City Council Ordinance No. 26903 directing that, beginning in 2004-05, Fund 515 transfers to the General Fund be limited and two water system reserve funds be established. To determine whether the SJMWS was in compliance with the ordinance we:

- Reviewed Municipal Code ordinances regarding Fund 515;
- Analyzed revenue status and appropriation balance reports for Fund 515 from 2000-01 through 2003-04;
- Obtained and reviewed Fund 515 budget information in the 2004-05 Proposed Operating and Capital Budgets;
- Interviewed SJMWS staff; and
- Reviewed SJMWS draft policies and procedures for complying with City Council Ordinance No. 26903.

City Council Ordinance No. 26903

In June 2003, the City Council enacted Ordinance No. 26903, amending Chapter 4.80 of Title 4 of the San Jose Municipal Code (Code), to ensure reasonable rates for customers receiving potable water service from the San Jose Municipal Water System (SJMWS). Specifically, the ordinance states

“WHEREAS, in order to ensure that potable water service continues to be provided to customers served by the San Jose Municipal Water System at rates which are reasonable, the City Council of the City of San Jose desires to establish a goal and that Municipal Water System potable water rates remain below the average water rates paid by City residents served by other water suppliers, after taking into account differences in wholesale water supply costs and rate structures between water retailers; and WHEREAS, in order to achieve the above goals, **this Council desires to limit the transfer of revenue from the Municipal Water System to the City General Fund, and to provide for the establishment of certain reserve funds for the Municipal Water System.**” [emphasis added]

Reserve Funds

City Council Ordinance No. 26903 amended Chapter 4.80 of Title 4 of the Code, to require the SJMWS, beginning in July 2004, to establish two reserve funds calculated as a percentage of operating revenue. Specifically, Section 4.80.630 of the Code requires the SJMWS to establish two reserve funds as follows:

- C. Monies in the Consolidated Potable Water Utility Operating Fund shall be appropriated as necessary for the establishment and maintenance of appropriate reserve funds within the Consolidated Potable Water Utility Operating Fund, including but not limited to the following:
 - 1. A capital rehabilitation reserve fund in an amount equal to seven percent (7%) of the revenue described in subsection A of Section 4.80.620; and
 - 2. A rate stabilization reserve fund in an amount equal to five percent (5%) of revenue described in subsection A of Section 4.80.620.

SJMWS Has Established Reserve Funds In Accordance With The Code

We found that the SJMWS has established and fully-funded both reserve fund requirements in accordance with the Code. Specifically, during the 2004-2005 budget preparation process, the SJMWS established the System Rehabilitation/Replacement Reserve for future capital rehabilitation and repair needs and the Rate Stabilization Reserve to minimize the need for future rate increases. The SJMWS set aside the System Rehabilitation/Replacement Reserve earmarked

funds in the Water Utility Capital Fund (Fund 500). On June 22, 2004, the City Council approved and adopted the 2004-05 Operating and Capital Budget which included an appropriation of \$1,383,000 for the System Rehabilitation/Replacement Reserve. The Code mandates that the System Rehabilitation/Replacement Reserve be equal to 7 percent of operating revenue. Actual SJMWS revenue for 2003-04 was \$19,397,833, of which a 7 percent reserve would be \$1,357,848. Thus, we found that the SJMWS has funded the System Rehabilitation/Replacement Reserve slightly higher than the Code requires. (\$1,383,000 vs. \$1,357,848).

We also found that the SJMWS has adequately funded the Rate Stabilization Reserve. The SJMWS holds the Rate Stabilization Reserve in Fund 515 as part of the ending fund balance. Currently, the reserve amount is \$1,018,000. The Code mandates a rate stabilization reserve equal to 5 percent of operating revenue. The SJMWS revenue for 2003-04 was \$19,397,833, of which 5 percent is \$969,892. Thus, we found that the SJMWS has funded the Rate Stabilization Reserve slightly higher than the Code requires. (\$1,018,000 vs. \$969,892).

Fund 515 Transfers To The General Fund

The City Council enacted Ordinance No. 26903 with the intent to limit the transfer of monies from the Consolidated Water Utility Fund (Fund 515) to the General Fund. The Code states that after monies in Fund 515 are expended for (1) direct costs of water system operations, (2) a triennial operational and financial audit, (3) establishing and fully-funding two reserve funds, and (4) transfer of in-lieu fees to the General Fund, additional Fund 515 monies may be transferred to the General Fund to reimburse overhead costs and provide a reasonable rate of return to the City. With regard to monies transferred to cover overhead costs and provide a reasonable rate of return, the Code now states

"If adequate monies remain after the expenditures authorized by subsections A, B, C, and D.1 above, monies may be transferred to the General Fund on an annual basis to reimburse the City for indirect overhead costs and to provide a reasonable rate of return to the City, provided that the amount so transferred shall not exceed the following:

- a. Until June 30, 2004, such amounts as may be allowed in the Council approved budget.
- b. From July 1, 2004 through June 30, 2005, an amount not to exceed eleven percent (11%) of the revenue, as described in subsection A of Section 4.80.620, which was received in the immediately preceding fiscal year.
- c. From and after July 1, 2005, an amount not to exceed eight percent (8%) of the revenue, as described in subsection A of Section 4.80.620, which was received in the immediately preceding fiscal year." [emphasis added].

The SJMWS Transferred Monies To The General Fund In Accordance With The Code

We found that the SJMWS has transferred monies to the General Fund in accordance with the Code. As noted earlier in this report, beginning July 1, 2004, the Code limits Fund 515 transfers to the General Fund to 11 percent of operating revenue received in the immediately preceding fiscal year. This percentage will decrease to 8 percent in 2005-06.

The SJMWS has established a process to limit its 2004-05 transfer to the General Fund to 11 percent of operating revenue. Specifically, the SJMWS estimated prior year's operating revenue based on a 2003-04 budgeted amount of \$19,240,000. The SJMWS multiplied the estimated revenue by 11 percent and transferred this amount, \$2,116,400, to the General Fund.

Although the initial transfer amount was based on an estimate, the SJMWS will transfer additional monies based on actual 2003-04 operating revenue. Specifically, the SJMWS 2003-04 actual operating revenue is \$19,397,833. Based on actual revenue, the SJMWS has adjusted the total General Fund transfer amount to \$2,133,762, or \$17,362 more than it has already transferred. The SJMWS will transfer the additional \$17,362 to the General Fund during the Fall Budget Cleanup process.

Exhibit 1 below shows the initial transfer based on the estimated revenue, the allowable transfer amount based on actual 2003-04 operating revenue, and the remaining monies to be transferred to the General Fund.

Exhibit 1
SJMWS Adjustment Of Transfers From Fund 515 To The General Fund

	2003-04 Estimated Operating Revenue	Initial Transfer To The General Fund For 2004-05	2003-04 Actual Operating Revenue*	Allowable Transfer Based On Actual Revenue	Remaining Monies To Be Transferred
Operating Revenue	\$19,240,000	\$2,116,400	\$19,397,833	\$2,133,762	\$17,362
Budget Transfers To The General Fund:					
Overhead		\$584,472		\$696,679	
Rate of Return		1,531,928		1,437,083	
Total		\$2,116,400		\$2,133,762	\$17,362

*Based on FMS Period 14

Source: SJMWS.

Because the SJMWS transfers to the newly-established reserve funds and to the General Fund are based on estimates, we assessed the reasonableness of SJMWS estimates. SJMWS staff has annually estimated the amount of Fund 515 expected operating revenue for budgetary purposes. Based on a series of assumptions, each year SJMWS staff estimate expected operating revenue from water sales. Exhibit 2 below shows estimated and actual operating revenues for Fund 515 from 2000-01 through 2003-04.

Exhibit 2
SJMWS Estimated And Actual Operating Revenues
From 2000-01 Through 2003-04

OPERATING REVENUE			
Fiscal Year	Estimated	Actual	Estimated To Actual Revenue
2000-01	\$14,729,000	\$15,583,344	94.52%
2001-02	17,280,000	16,753,191	103.15%
2002-03	17,450,000	17,101,620	102.04%
2003-04	19,240,000	19,397,833	99.19%

Source: FMS.

As Exhibit 2 demonstrates, SJMWS staff has reasonably estimated operating revenues in prior years.

The SJMWS Has Drafted Written Policies And Procedures Regarding Fund Transfers And The Establishment And Fully-Funding Of Reserve Funds

During the course of our audit, the SJMWS drafted written policies and procedures for transferring funds from Fund 515 to the General Fund and for establishing and fully-funding the System Rehabilitation/Replacement and Rate Stabilization Reserves. The City Auditor's Office reviewed the SJMWS' draft policies and procedures and found them to be adequate. In our opinion, the SJMWS should finalize the draft policies and procedures to ensure Fund 515 transfers to the General Fund are correct and reserve levels are appropriately funded and maintained. By so doing, the SJMWS can ensure it transfers monies to the General Fund and maintains established reserves in accordance with the City Council's direction.

Conclusion

We found that the SJMWS is in compliance with City Council Ordinance No. 26903 regarding the establishment and fully-funding of System Rehabilitation/Replacement and Rate Stabilization reserve funds in Fund 500 and Fund 515, respectively, for 2004-05. In addition, the SJMWS has limited Fund 515 transfers to the General Fund in accordance with the Code. The

SJMWS has drafted policies and procedures and the City Auditor's Office has reviewed them for adequacy. We recommend that the SJMWS finalize its procedures for fund transfers and the establishment and maintenance of required fund reserves for future City Auditor review and comment.

GS:lg
501

ATTACHMENT B

Procedures for Maintaining Reserves
And
General Fund Transfers
Per
Part 12, Section 4.80.630
Of
San Jose Municipal Code

Environmental Services Department
San Jose Municipal Water System

September 1, 2004

Introduction

This procedure provides instructions and guidelines to implement the requirements of Section 4.80.630 of the San Jose Municipal Code. It addresses the following topics:

- Maintaining a Capital Rehabilitation/Replacement Reserve
- Maintaining a Rate Stabilization Reserve
- In-Lieu-Fee Transfers
- General Fund Transfers Including Indirect Overhead Costs and Rate of Return

The budget for these reserves and transfers is determined based on estimated annual water sales revenue. Following describes the procedures used to calculate each of these amounts:

1. Capital Rehabilitation/Replacement Reserve (CRRR)

The CRRR- was first established in FY 2003-04 with a balance of \$1 million. Pursuant to revisions to Section 4.80.630 of the San Jose Municipal Code, beginning in FY 2004-05, the CRRR began being calculated as a percentage of budgeted water sales revenue. The budget for water sales revenue for FY 2004-05 was estimated in accordance with the procedure shown in Attachment A. Pursuant to Section 4.80.630 of the San Jose Municipal Code, beginning with the FY 2004-05 budget, an amount equal to seven percent (7%) of the estimated annual water sales revenue will be budgeted as the CRRR.

Budgeting Procedure

Step 1 - Estimate the annual water sales revenue budget for the next fiscal year following the procedure shown in Attachment A.

Step 2 - Multiply the value calculated in Step 1 by 7%.

Step 3 - If the amount calculated in Step 2 above is higher than the amount budgeted for the CRRR in the current CIP budget, add the difference to the CRRR for the next budget year and increase the Capital transfer amount from Fund 515 to Fund 500.

Step 4 - If the amount calculated in Step 2 is lower than the amount shown for the CRRR in the budget, then no action is required.

2. Rate Stabilization (RSR)

Pursuant to Section 4.80.630 of the San Jose Municipal Code, beginning with the FY 2004-05 budget, an amount equal to five percent (5%) of the estimated annual water sales revenue has been/will continue to be budgeted as the RSR. Water sales revenue for FY 2004-05 was estimated in accordance with the procedure shown in Attachment A.

Budgeting Procedure

Step 1 - Estimate the annual water sales revenue budget for the next fiscal year following the procedure shown in Attachment A.

Step 2 - Multiply the value calculated in Step 1 by 5%.

Step 3 - Budget the amount calculated in Step 2 for the RSR in the next fiscal years budget.

NOTE: Use of the above reserve funds is governed by City policies and requires Council action.

3. In-Lieu Fee

The San Jose Municipal Code calls for the In-Lieu Fee to be calculated in a manner similar to the amount paid by potable water utilities that are not exempt from payment of franchise fees to the City. In this case the In-Lieu Fee payment should be comparable to that paid by Great Oaks Water Company, currently 2% of water sales revenue.

Budgeting Procedure

Step 1 - Estimate the annual water sales revenue budget for the next fiscal year following the procedure shown in Attachment A

Step 2 - Multiply the revenue calculated in Step 1 by 2% and budget this amount.

NOTE: During the fall cleanup for the fiscal year, adjustments to true-up actual transfer with maximum allowable transfer will need to be made. To determine the appropriate adjustment, follow the procedure as shown in Attachment B.

4. Overhead Cost (OHC) and Rate of Return (ROR) Transfers

Subsection D(2b) of Section 4.80.630 limits the transfers of OHC and ROR transfers to 11% of the operating revenue for FY 2004-05 and to 8% thereafter.

The amount of transfer is calculated by multiplying the appropriate percentage value by the operating revenue received in the immediately preceding fiscal year. Transfers for FY 2004-05 have already been made. The procedure followed was as shown below, but using 11% rate. Now that actual revenue numbers are in, adjustments to the transfers will be made during the fall cleanup as shown in Attachment C. The procedure below is for FY 2005-06 and beyond.

Budgeting Procedure

Step 1 - Obtain the projected annual sales revenue for the current fiscal year.

Step 2 - Multiply the revenue calculated in Step 1 by 8%. This is the maximum allowable total transfer of the combined OHC and ROR.

Step 3 - Obtain the OHC from the Budget Office.

Step 4 - Subtract the figure obtained in Step 3 from the amount calculated in Step 2. This is the maximum allowable ROR transfer. Budget this amount.

NOTE: During the fall cleanup for the fiscal year, adjustments to true-up actual transfer with maximum allowable transfer will need to be made. To determine the appropriate adjustment, follow the procedure as shown in Attachment B.

Attachment A

Estimating Annual Water Sales Revenue

Follow this procedure for estimating potable and recycled water revenues separately.

Step 1 - Estimate Future Water Production

1. Obtain previous fiscal year's actual water production volume (in acre-feet) from wholesale bills.
2. Analyze how current fiscal year's actual YTD production data is tracking with estimates and adjust as required.
3. Review previous 5 years production volumes, determine trend, and calculate 5-year average change.
4. Estimate next FY production volume taking into account:
 - a. Historical production trend
 - a. Current and projected customer growth and usage patterns in the service areas
 - b. Weather patterns
 - c. Any other known anomalies

Step 2 - Calculate Historical Average Revenue per Volume Produced

1. Obtain previous fiscal year's year-end water sales revenue data from City's FMS reports
2. Calculate historical average revenue per volume produced by dividing previous fiscal year's total revenue by previous fiscal years' total water production volume in acre-feet (see step 1.1).

Step 3 - Calculate Projected Change in Wholesale Rates

1. Obtain projected rate changes from wholesale water suppliers.
2. Calculate weighted average rate change in \$/AF based on projected production split. (Typically 75% SCVWD/25% SFPUC)

Step 4 - Calculate Retail Revenue

1. Assuming no retail rate increase:

Multiply historical average revenue per volume calculated under step 2 by water production volume estimate calculated under step 1.

2. Assuming Pass through of wholesale water rate increase:

Add the projected increase in wholesale rates calculated under step 3 to the Historical average revenue per volume calculated under step 2. Then, multiply the result by Water production volume estimate calculated under step 1.

3. Assuming Pass through of other cost increases:

Determine the total revenue needed to cover cost increases in other areas such as electricity, salary increases, other regulatory increases etc. Divide this total revenue by the estimated future water production calculated in step 1.

Add the other cost increases calculated above to the projected increase in wholesale rates calculated under step 3 to the Historical average revenue per volume calculated under step 2. Then, multiply the result by Water production volume estimate calculated under step 1.

Attachment B

Procedure for Adjustment of Transfers from Consolidated Potable Water Utility Fund (515) to General Fund (001)

Pursuant to Ordinance No. 26903, the Rate of Return, Indirect Overhead and In-lieu fee transfers to the general fund must be based on actual revenue. This requires an annual clean-up action to true up the budget estimates with actual results.

For Rate of Return and Indirect Overhead (beginning in FY 04-05):

Step 1. Obtain actual total water sales revenue from previous fiscal year from the City's FMS reports.

Step 2. Calculate the total allowable transfer for rate of return and indirect overhead for the current fiscal year, by multiplying last fiscal year's actual water sales revenue by the approved percentage. (In FY 2004-05 the allowable transfer is 11%, and in FY 2005-06 and beyond, the allowable transfer is 8%.) This will set the maximum allowable transfer in these two categories.

Step 3. Sum the current year's budget for rate of return and indirect overhead. Note: Indirect Overhead amounts are found in two locations in the Fund 515 operating budget. First, it is shown as a separate line item in the operating budget and the second is rolled up in the ESD non-personal appropriation. Both overhead amounts must be included.

Step 4. Subtract the budgeted amount calculated in Step 3 from the maximum allowable transfer amount calculated in Step 2. If the result is 0, no further action is needed.

Step 5. If the result is positive, (the budgeted amount for the current fiscal year is less than the maximum allowable transfer) the resulting difference may be transferred from Fund 515 to the General Fund as an adjustment during the fall budget clean-up process. If the result is negative (the budgeted amount for the current fiscal year is more than the maximum allowable transfer), the resulting difference should be transferred from the General Fund to the Fund 515 as an adjustment during the fall budget clean-up process.

For In-lieu Fee (beginning in FY 05-06)

Step 1. Obtain actual total water sales revenue for previous fiscal year from the City's FMS reports.

Step 2. Obtain actual in-lieu fee transferred for previous fiscal year from City's FMS reports

Step 3. Multiply total sales revenue obtained in Step 1 by 2%. (This is the maximum in-lieu fee that could be transferred last fiscal year)

Step 4. Subtract the actual in-lieu fee transferred last fiscal year, obtained in Step 2, from the maximum allowable in-lieu fee calculated in Step 3. If the result is 0, no further action is needed.

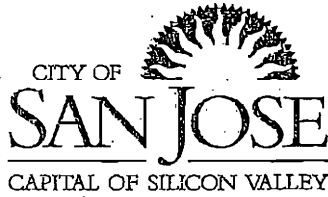
Step 5. If the result is positive, (the actual amount transferred last fiscal year is less than the maximum allowable transfer) the resulting difference may be transferred from Fund 515 to the General Fund as an adjustment during the fall budget clean-up process. If the result is negative (the actual amount for last fiscal year is more than the maximum allowable transfer), the resulting difference should be transferred from the General Fund to the Fund 515 as an adjustment during the fall budget clean-up process.

Attachment C

**ADJUSTMENT OF TRANSFERS FROM FUND 515 TO 001 (GF):
FALL CLEANUP - SEPTEMBER 2004**

	2003-04 Modified Budget	Original Transfer to GF for 04-05 (based on Est.)	2003-04 Actuals	Allowable Transfer to GF (11%) for FY 04-05	Net Incr/Decr to GF Transfer for FY 04-05	Adjusted GF Transfer Amounts
Revenue, Operating	19,240,000	2,116,400	19,395,964	2,133,556	17,156	
Budgeted Transfers to GF:						
Overhead, Direct (ESD)		580,871			110,210	691,081
Overhead, Indirect		3,601			1,997	5,598
Rate of Return		1,531,928			(95,051)	1,436,877
Total		<u>2,116,400</u>			<u>17,156</u>	<u>2,133,556</u>

ATTACHMENT C



Office of the City Auditor

**Report to the City Council
City of San José**

AN AUDIT OF THE SAN JOSE MUNICIPAL WATER SYSTEM CONSOLIDATED WATER UTILITY FUND TRANSFERS

**The San Jose Municipal Water System
Complied With San Jose Municipal Code
Requirements For Transferring Monies To
The General Fund And For Maintaining
Established Reserve Funds; However, The
City Should Institute A Policy On The Use
And Replenishment Of The Reserve Funds**

**Report 07-02
April 2007**

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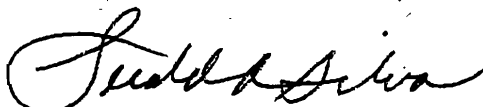
Honorable Mayor and Members
of the City Council
200 East Santa Clara Street
San Jose, CA 95113

CITY OF SAN JOSE
MUNICIPAL WATER SYSTEM

Transmitted herewith is a report on *An Audit Of The San Jose Municipal Water System Consolidated Water Utility Fund Transfers*. This report is in accordance with City Charter Section 805. An Executive Summary is presented on the blue pages in the front of this report. The Environmental Services Department and the Municipal Water System Administration have reviewed the Report and concur with its contents and the recommendation contained therein.

I will present this report to the Public Safety, Finance and Strategic Support Committee at its April 19, 2007 meeting. If you need any additional information, please let me know. The City Auditor's staff members who participated in the preparation of this report are Mike Edmonds and Robin Opheim.

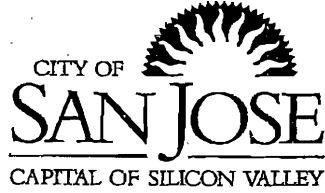
Respectfully submitted,



Gerald A. Silva
City Auditor

finaltr
GS:lg

cc: Les White Mansour Nasser
Kay Winer Rick Doyle
John Stuffiebean Mollie Dent



Office of the City Auditor

**Report to the City Council
City of San José**

**AN AUDIT OF THE SAN JOSE
MUNICIPAL WATER SYSTEM
CONSOLIDATED WATER
UTILITY FUND TRANSFERS**

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Executive Summary

In accordance with the City Auditor's 2006-07 Audit Workplan, we audited the San Jose Municipal Water System (SJMWS) Consolidated Water Utility Fund (Fund 515) transfers. We audited the SJMWS to determine whether it transferred the proper amount to the General Fund in compliance with the San Jose Municipal Code (Municipal Code). We also audited the SJMWS to determine whether it maintained two water system reserve funds – the System Rehabilitation/Replacement Reserve and Rate Stabilization Reserve – in accordance with the Municipal Code. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Objectives, Scope, and Methodology section of this report.

Finding I

The San Jose Municipal Water System Complied With San Jose Municipal Code Requirements For Transferring Monies To The General Fund And For Maintaining Established Reserve Funds; However, The City Should Institute A Policy On The Use And Replenishment Of The Reserve Funds

We found that the San Jose Municipal Water System (SJMWS) transferred monies from the Consolidated Water Utility Fund (Fund 515) to the General Fund and maintained established reserve funds in accordance with the City of San Jose Municipal Code (Municipal Code). Specifically, during 2005-06 and 2006-07, the SJMWS adhered to Municipal Code requirements to limit fund transfers between Fund 515 and the General Fund and fully-fund two water system reserve funds. However, we also found that the City of San Jose (City) needs a policy regarding the use and replenishment of the reserve funds. Accordingly, in our opinion, the City Council should adopt a policy for the use and replenishment of the System Rehabilitation/Replacement Reserve and Rate Stabilization Reserve Funds.

RECOMMENDATION

We recommend that the City Council:

**Recommendation #1 Adopt a policy regarding the use and replenishment of the
System Rehabilitation/Replacement Reserve Fund and the
Rate Stabilization Reserve Fund. (Priority 3)**

Introduction

In accordance with the City Auditor's 2006-07 Audit Workplan, we audited the San Jose Municipal Water System (SJMWS) Consolidated Water Utility Fund (Fund 515) transfers. We audited the SJMWS to determine whether it transferred the proper amount to the General Fund in compliance with the San Jose Municipal Code (Municipal Code). We also audited the SJMWS to determine whether it maintained two water system reserve funds – the System Rehabilitation/Replacement Reserve and Rate Stabilization Reserve – in accordance with the Municipal Code. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Objectives, Scope, and Methodology section of this report.

Background

In June 2003, the City Council enacted Ordinance No. 26903, amending Chapter 4.80 of Title 4 of the Municipal Code. The Ordinance states:

...WHEREAS, in order to achieve the above goals, this Council desires to limit the transfer of revenue from the Municipal Water System to the City General Fund, and to provide for the establishment of certain reserve funds for the Municipal Water System....

The Ordinance also mandated that:

...Monies in the Consolidated Water Utility Operating Fund shall be expended on at least a triennial basis for an operational and financial audit, which assesses the compliance of the potable water system within the Consolidated Potable Water Service Area with all applicable provisions of this Code.

The Ordinance revised Section 4.80.630 of the Municipal Code to limit the amount of monies transferred from Fund 515 to the City's General Fund. The Municipal Code limited the transfers for a Rate of Return charge and Overhead charges. Specifically, the Municipal Code limited Fund 515 transfers to 11 percent of operating revenues received in 2004-05 and 8 percent of operating revenues beginning in 2005-06. In addition, the Municipal Code allows for an In-Lieu Fee transfer from Fund 515 to the General Fund that is equal to two percent

of operating revenue. Finally, the Ordinance also revised Section 4.80.630 to require the SJMWS to maintain a capital rehabilitation reserve fund equal to seven percent of the operating revenue and a rate stabilization reserve fund in an amount equal to five percent of operating revenue.

In October 2004, the City Auditor issued *A Report On San Jose Municipal Water System Compliance With City Council Ordinance No. 26903*, which found that the SJMWS complied with the Ordinance. Specifically, the SJMWS

- Developed policies and procedures documenting the process to limit revenue transfers from Fund 515 to the General Fund;
- Limited the amount transferred in 2004-05 from Fund 515 to the General Fund as the Ordinance required; and
- Established and fully-funded two water system reserve funds – the System Rehabilitation/Replacement Reserve Fund and the Rate Stabilization Reserve Fund.

In June 2006, a City Councilmember requested the triennial audit be accelerated due to proposed SJMWS water rate increases and specifically directed the City Auditor to determine if both the System Rehabilitation/Replacement Reserve Fund and Rate Stabilization Reserve Fund are being maintained as prescribed in the Municipal Code.

**Objectives, Scope,
And Methodology**

The objectives of this audit were to determine whether the SJMWS transferred money from Fund 515 to the General Fund in 2005-06 and 2006-07 in accordance with the Municipal Code and to assess whether the SJMWS maintained the System Rehabilitation/Replacement Reserve Fund and the Rate Stabilization Reserve Fund in accordance with the Municipal Code. To determine compliance we:

- Reviewed Municipal Code ordinances regarding Fund 515;
- Analyzed revenue status and appropriation balance reports for Fund 515 for 2004-05, 2005-06, and 2006-07;
- Obtained and reviewed Fund 515 and Fund 500 budget information in the 2004-05 and 2005-06 Adopted Operating and Capital Budgets;

- Reviewed other jurisdictions' reserve fund policies;
- Interviewed San Jose Municipal Water System staff;
- Obtained and reviewed San Jose Municipal Water System policies, procedures, and calculations regarding fund transfers; and
- Reviewed the City Manager's Office September 2005 and September 2006 Annual Reports.

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Finding I

The San Jose Municipal Water System Complied With San Jose Municipal Code Requirements For Transferring Monies To The General Fund And For Maintaining Established Reserve Funds; However, The City Should Institute A Policy On The Use And Replenishment Of The Reserve Funds

We found that the San Jose Municipal Water System (SJMWS) transferred monies from the Consolidated Water Utility Fund (Fund 515) to the General Fund and maintained established reserve funds in accordance with the City of San Jose Municipal Code (Municipal Code). Specifically, during 2005-06 and 2006-07, the SJMWS adhered to Municipal Code requirements to limit fund transfers between Fund 515 and the General Fund and fully-fund two water system reserve funds. However, we also found that the City of San Jose (City) needs a policy regarding the use and replenishment of the reserve funds. Accordingly, in our opinion, the City Council should adopt a policy for the use and replenishment of the System Rehabilitation/Replacement Reserve and Rate Stabilization Reserve Funds.

From July 1, 2004 through June 30, 2005, the Municipal Code limited the transfer of monies for Rate of Return and Overhead charges from the Consolidated Potable Water Utility Operating Fund to the General Fund to 11 percent. After July 1, 2005, the Municipal Code further limited the Rate of Return and Overhead transfer amounts and states that *From and after July 1, 2005, an amount not to exceed eight percent of the revenue, as described in subsection A. of Section 4.80.620, which was received in the immediately preceding fiscal year.* (Emphasis added).

The Municipal Code also mandates that the annual In-Lieu Fee transfer amount from Fund 515 to the General Fund be two percent of actual operating revenues. Annual transfers to the General Fund from Fund 515 for the Rate of Return, Overhead, and In-Lieu Fees are based on estimated revenues. The actual amount available for the General Fund cannot be determined until the final revenue numbers from the immediately preceding

fiscal year are known – usually in September. Therefore, an adjustment is necessary each year during the Fall Budget Cleanup process to correct the actual amounts transferred. Depending on the actual revenues received, this may result in either an increase or a decrease in the General Fund transfers from Fund 515.

**The SJMWS
Transferred
Monies To The
General Fund In
Accordance With
The Municipal
Code**

We found that the SJMWS has transferred Fund 515 monies to the General Fund in accordance with the Municipal Code. Exhibit 1 below shows Fund 515 actual operating revenues for 2004-05 and 2005-06 and the allowable and actual amounts SJMWS staff transferred for 2005-06 and 2006-07.

**Exhibit 1 Comparison Of Allowable And Actual Rate Of
Return, Overhead, And In-Lieu Fees Transferred
From Fund 515 To The General Fund For 2005-06
And 2006-07**

	2004-05 Actual Revenue	Allowable General Fund Transfers For 2005-06	Actual General Fund Transfers For 2005-06
Operating Revenue	\$18,683,816		
Transfers to General Fund:			
Overhead, Direct ¹		\$424,817	\$424,817
Overhead, Indirect		7,084	7,084
Rate of Return		1,062,804	1,062,804
Subtotal Transfers		\$1,494,705	\$1,494,705
In-Lieu Fees		373,676	373,676
Total Transfers		\$1,868,381	\$1,868,381
	2005-06 Actual Revenue	Allowable General Fund Transfers For 2006-07	Actual General Fund Transfers For 2006-07
Operating Revenue	\$20,048,648		
Transfers to General Fund:			
Overhead, Direct		468,860	468,860
Overhead, Indirect ¹		7,350	7,350
Rate of Return		1,127,682	1,127,682
Subtotal Transfers		\$1,603,892	\$1,603,892
In-Lieu Fees		400,973	400,973
Total Transfers		\$2,004,865	\$2,004,865

Source: City's Financial Management System.

¹ Environmental Services Department.

As Exhibit 1 above shows, in both 2005-06 and 2006-07, the SJMWS transferred the proper amount from Fund 515 to the General Fund for Rate of Return, Overhead, and In-Lieu Fees in each year. Specifically, the SJMWS transferred \$1,494,705 and \$1,603,892 from Fund 515 to the General Fund in 2005-06 and 2006-07, respectively, for Rate of Return and Overhead charges. In addition, In-Lieu Fees totaling \$373,676 and \$400,973 transferred from Fund 515 to the General Fund in 2005-06 and 2006-07, respectively. All transfers were in accordance with the Municipal Code.

**San Jose Municipal
Water System
Reserve Funds
Continue To Be
Maintained In
Accordance With
The Municipal
Code**

City Council Ordinance No. 26903 amended Chapter 4.80 of Title 4 of the Municipal Code, to require the SJMWS, beginning in July 2004, to establish reserve funds calculated as a percentage of operating revenue. Specifically, Section 4.80.630 of the Municipal Code required the SJMWS to establish two reserve funds as follows:

C. Monies in the consolidated potable water utility operating fund shall be appropriated as necessary for the establishment and maintenance of appropriate reserve funds within the consolidated potable water utility operating fund, including but not limited to the following:

- 1. A capital rehabilitation reserve fund in an amount equal to seven percent of the revenue described in subsection A. of Section 4.80.620; and*
- 2. A rate stabilization reserve fund in an amount equal to five percent of revenue described in subsection A. of Section 4.80.620.*

During the 2004-2005 budget preparation process, the SJMWS established the System Rehabilitation/Replacement Reserve Fund for future capital rehabilitation and repair needs and the Rate Stabilization Reserve to minimize the need for future water rate increases.

**System
Rehabilitation/
Replacement Reserve
And Rate
Stabilization Reserve
Funds**

The SJMWS set aside the System Rehabilitation/Replacement Reserve Fund in the Water Utility Capital Fund (Fund 500). In addition, the SJMWS established the Rate Stabilization Reserve, which is held as part of Fund 515. On June 22, 2004, the City Council approved and adopted the 2004-05 Operating and Capital Budgets which included appropriations of

\$1,383,000 for the System Rehabilitation/Replacement Reserve and \$1,018,000 for the Rate Stabilization Reserve. As noted above, the Municipal Code mandates that the System Rehabilitation/Replacement Reserve and the Rate Stabilization Reserve be equal to seven percent and five percent, respectively, of Fund 515 operating revenue. Exhibit 2 compares the actual and allowable System Rehabilitation/Replacement Reserve and Rate Stabilization Reserve Fund levels in 2004-05 and 2005-06.

Exhibit 2 Comparison Of 2004-05 And 2005-06 Actual And Allowable System Rehabilitation/Replacement Reserve And Rate Stabilization Reserve Fund Levels

	Actual Reserves Held In 2004-05	Allowable Minimum Reserves In 2004-05	Excess Actual Reserves Over Allowable Minimum Reserves
System Rehabilitation/Replacement Reserve Fund	\$1,383,000	\$1,307,867	\$75,133
Rate Stabilization Reserve Fund	\$1,018,000	\$934,191	\$83,809
	Actual Reserves Held In 2005-06	Allowable Minimum Reserves In 2005-06	Excess Actual Reserves Over Allowable Minimum Reserves
System Rehabilitation/Replacement Reserve Fund	\$1,539,000	\$1,403,405	\$135,595
Rate Stabilization Reserve Fund	\$1,099,000	\$1,002,432	\$96,568

Source: 2004-05 and 2005-06 Adopted Capital Budgets and the City's Financial Management System.

As Exhibit 2 shows, the SJMWS has overfunded the System Rehabilitation/Replacement Reserve Fund and Rate Stabilization Reserve Fund by \$75,133 and \$83,809 and \$135,595 and \$96,568, respectively, in 2004-05 and 2005-06.

**The City Should
Institute A Policy
For The Use And
Replenishment Of
The System
Rehabilitation/
Replacement
Reserve And Rate
Stabilization
Reserve Funds**

In May 2003, the City Council directed the City Attorney's Office to draft an ordinance that would limit revenue transfers from the Municipal Water System to the General Fund and provide for certain reserve funds to be established for the Municipal Water System. A June 6, 2003 City Attorney's Office memorandum to the City Council states:

...The purpose of reserve funds is to have funds available in the event unanticipated costs arise. The rate stabilization reserve fund, which will always be at least 5% of revenue in a given year, will be available to postpone the need for a rate increase if, for example, wholesale water or power prices increase during the year. Similarly, the capital reserve fund, which will always be at least 7% of revenue in a given year, will be available for capital projects

Prior to adopting Ordinance No. 26903, revising the Municipal Code, the City Council requested the reserve fund purpose be clarified. In a supplemental memorandum, the City Attorney's Office responded:

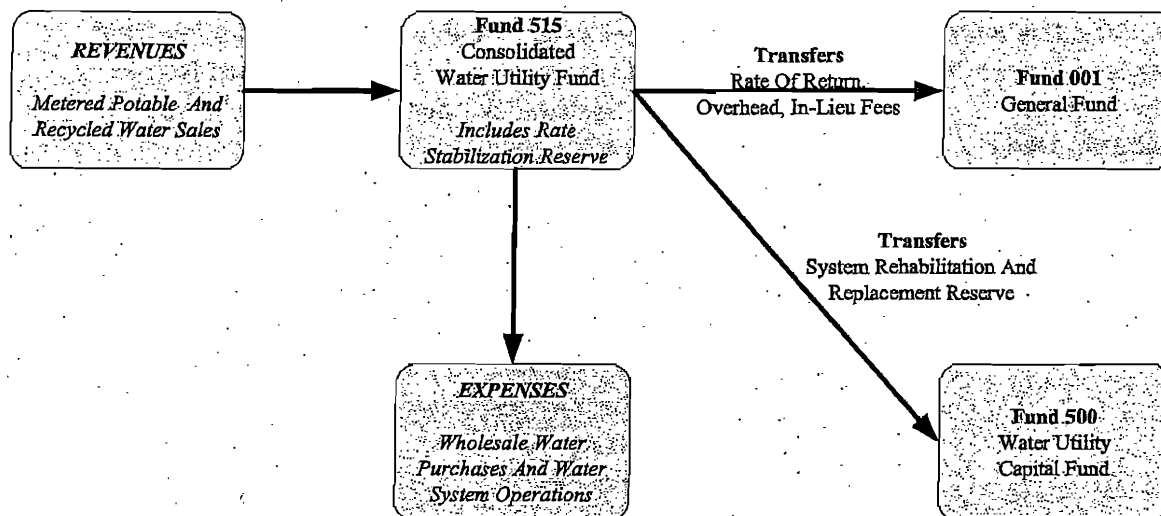
...In addition, the reserve fund provision has been revised to clarify that the purpose is to appropriate sufficient monies to establish and maintain the reserve funds; once the funds are established, additional monies will only need to be appropriated, if the reserves fall below the specified levels...

The final version of Ordinance No. 26903 stated:

WHEREAS, in order to ensure that potable water service continues to be provided to customers served by the San Jose Municipal Water System at rates which are reasonable, the City Council of the City of San Jose desires to establish a goal and [sic] that Municipal Water System potable water rates remain below the average water rates paid by City residents served by other water suppliers, after taking into account differences in wholesale water supply costs and rate structures between water retailers; ...

Exhibit 3 below shows the flow of Fund 515 revenues to the other City funds for the Rate of Return, Overhead, and In-Lieu Fee transfers and for maintaining appropriate water system reserve fund levels.

Exhibit 3 Consolidated Water Utility Fund Flow Of Fund Revenues



While the Municipal Code is clear in defining the purpose and appropriate amounts of the reserve funds, the Municipal Code does not contain a policy describing a mechanism for the use or replenishment of the System Rehabilitation/Replacement Reserve or Rate Stabilization Reserve Funds. Moreover, the SJMWS Administration confirmed that it is uncertain how it should replenish the two reserve funds in the event it is necessary to use them. For example, if the SJMWS depleted the Rate Stabilization Reserve Fund below the mandated level to postpone a rate increase, the SJMWS would be out of compliance with the Municipal Code until it restored the fund to the mandated level. However, according to SJMWS Administration, immediate restoration of the Rate Stabilization Reserve Fund level could cause SJMWS customers' water rates to increase dramatically, which would defeat the purpose of the Fund.

Rate Stabilization Reserve Fund Policies

We found that other jurisdictions have established policies to manage and use their Rate Stabilization Reserve Funds. For example, the City of Santa Rosa resolved in June 2006 to establish various utility reserves. Resolution No. 26592 states:

WHEREAS, the City of Santa Rosa maintains contingency reserves for all major operating funds and maintaining adequate reserves provides flexibility to respond to fluctuations in revenues and costs and to short term emergencies...this policy establishes the intended use of the various reserves...in order to:

- *Fund unanticipated capital projects and infrastructure replacement and construction*
- *Offset lower than expected revenues due to water shortage emergency, low sales due to cool or wet weather, etc.*
- *Offset demand fee fluctuations due to development patterns, trends and issues*
- *Provide short term funding in case of local disaster or catastrophic event*
- *Meet bond covenants and loan requirements...*

The City of Santa Cruz has also established a Rate Stabilization Reserve Fund policy. The City of Santa Cruz Council Policy 34.4 "Water Rate Stabilization Fund – Management And Use" puts forth general rules for use and replenishment of the fund. Specifically, Santa Cruz' policy states:

Use of the Water Rate Stabilization Fund shall be authorized by the City Council after consideration of a recommendation from the Water Commission and a written request from the City Manager based upon one, or a combination of, the following conditions:

- *Increased Capital Improvement Program (CIP) or capital outlay expenditures due to an extraordinary non-recurring need or circumstance.*
- *A fluctuation in water consumption revenues creating an unanticipated shortfall.*
- *Catastrophic losses as the result of a natural disaster.*

In addition, the City of Santa Cruz created the "Water Rate Stabilization Surcharge" (\$0.10 per 100 cubic feet) to originally establish their Rate Stabilization Reserve Fund and opted to cap the amount the surcharge would accumulate in the Fund. According to the policy:

- *The accounting and record keeping of the Rate Stabilization Surcharge fund shall be in accordance with those procedures set forth for "restricted revenues" until such time as \$2.3 million has accumulated in the Rate Stabilization Reserve Fund.*
- *Once the Rate Stabilization Fund has reached \$2.3 million, the accounting and record keeping of the Rate Stabilization Surcharge fund shall be in accordance with those procedures set forth for unrestricted revenues and will be collected in the Water Fund.*

Should it be necessary to deplete the Water Rate Stabilization Reserve Fund for any of the allowable reasons, the accounting and record keeping procedures will revert to those set forth for restricted revenues, and collected in the Water Rate Stabilization Reserve Fund until the fund has once again reached \$2.3 million.

Furthermore, the City of Newport Beach established a policy for the administration of financial reserves and fund balances. The policy states:

Prudent financial management dictates that some portion of the funds available to the City be reserved for future use. Future uses are categorized as either pre-planned projects or unforeseen financial emergencies.

The Newport Beach policy also describes categories of reserves, including Stabilization Reserves, stating:

Stabilization Reserves enhance the orderly management of the Operating Budget by stabilizing revenues and expenditures, which fluctuate beyond the ability of City staff to control or predict.

Also, policy language specific to the Water Rate Stabilization Reserve reads:

This reserve is used for water rate or fee stabilization to offset large expenditures changes such as water purchase, energy or treatment costs...thereby partially eliminating

the volatility in annual rate adjustments. It is not intended to offset ongoing, long-term pricing structure changes. (Emphasis added).

Finally, the City of Westminster, Colorado passed Resolution No. 57 re Fiscal Policies – Utility Reserves stating:

Typically, a Rate Stabilization Reserve is established and funded to meet a specific risk such as revenue loss related to a certain level of demand curtailment...

Each policy for management and use described above mandates the use of Stabilization Reserves in emergency or unforeseen situations. According to SJMWS Administration, this is the appropriate way for the City to use its Rate Stabilization Reserve Fund as well.

**SJMWS' Wholesale
Water Costs
Increase Annually**

SJMWS Administration informed us that its cost for wholesale water increases each year. The SJMWS purchases water from two wholesale suppliers, the Santa Clara Valley Water District (SCVWD) and San Francisco Water District (SFWD). These suppliers project annual wholesale water rate increases necessary to fund system rehabilitation and/or replacement and major capital improvements to their systems. From 1993 until 2000, although wholesale water costs increased each year, the SJMWS did not increase SJMWS customers' water rates. According to SJMWS Administration, this was due to the high level of system growth during those years, which increased SJMWS' customer base and operating revenues, enabling the SJMWS to absorb its increased operating costs.

Since 2000, the SJMWS has increased water rates by "passing through" the increased cost of wholesale water to the SJMWS' commercial and residential customers. "Passing through" means increasing rates to exactly offset increased wholesale water costs. Thus, "passing through" is a budget-balancing measure, not a profit-making one. Nearly 60 percent of the SJMWS annual expenditures are for water and energy, costs which the SJMWS cannot control and must pass on to its customers. The SJMWS bases its water rates entirely on the cost for wholesale water and its costs to operate its facilities. The SJMWS estimates how many acre-feet it will purchase and divides the cost by the SJMWS customer base to arrive at the pricing structure to achieve the necessary level of operating revenues. The SJMWS must obtain City Council approval and notify its customers of any rate increases 45 days ahead of time.

The SJMWS sends out its notices in May. These notices present a "worst-case, highest-cost" scenario to the SJMWS customers as the actual cost of wholesale water is unknown until the end of the fiscal year.

In addition, the yearly wholesale water rate increases incrementally impact the amount of operating revenues needed to run the SJMWS. For example, if the SJMWS adjusted rates to cover a \$1.2 million increase in its wholesale water costs in 2007-08, then its 2008-09 rates would have to cover the \$1.2 million 2007-08 increase plus any 2008-09 cost of water increases. The SJMWS' two wholesale water suppliers, the SCVWD and SFWD, project the per acre-foot cost of water over a ten-year period. The current projection for 2007 through 2016 is attached as Appendix B. SJMWS Administration uses this information to estimate its costs and the revenues they must generate to operate the SJMWS. According to SJMWS Administration, it can anticipate and budget for annual wholesale water cost increases similar to those shown in Appendix B. SJMWS staff also believe that the Rate Stabilization Reserve Fund should only be used in the event of drought or other unanticipated emergencies. Finally, because the Rate Stabilization Reserve Fund is currently mandated at five percent of operating revenues, as revenues increase, the size of the Rate Stabilization Reserve Fund must increase proportionately. Consequently, the SJMWS passes the cost of increasing the size of the Rate Stabilization Reserve Fund on to its customers. The SJMWS could reduce the size of future water rate increases to its customers if the City set a funding level for the Rate Stabilization Reserve Fund rather than basing it upon a percentage of SJMWS operating revenue.

In our opinion, the City Council should adopt a policy for the use and replenishment of the System Rehabilitation/Replacement Reserve and Rate Stabilization Reserve Funds.

We recommend that the City Council:

Recommendation #1

Adopt a policy regarding the use and replenishment of the System Rehabilitation/Replacement Reserve Fund and the Rate Stabilization Reserve Fund. (Priority 3)

CONCLUSION

We found that in 2005-06 and 2006-07, the San Jose Municipal Water System complied with the San Jose Municipal Code, which limits transfers from the Consolidated Water Utility Fund to the General Fund. In addition, we found that the San Jose Municipal Water System has funded the System Rehabilitation/Replacement Reserve and Rate Stabilization Reserve Funds in accordance with the Municipal Code. However, we recommend that the City of San Jose institute a policy regarding the possible use and replenishment of the reserve funds. Accordingly, we recommend that the City Council adopt a policy regarding the use and replenishment of the System Rehabilitation/Replacement Reserve and Rate Stabilization Reserve Funds.

RECOMMENDATION

We recommend that the City Council:

Recommendation #1

Adopt a policy regarding the use and replenishment of the System Rehabilitation/Replacement Reserve Fund and the Rate Stabilization Reserve Fund. (Priority 3)

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APPENDIX A

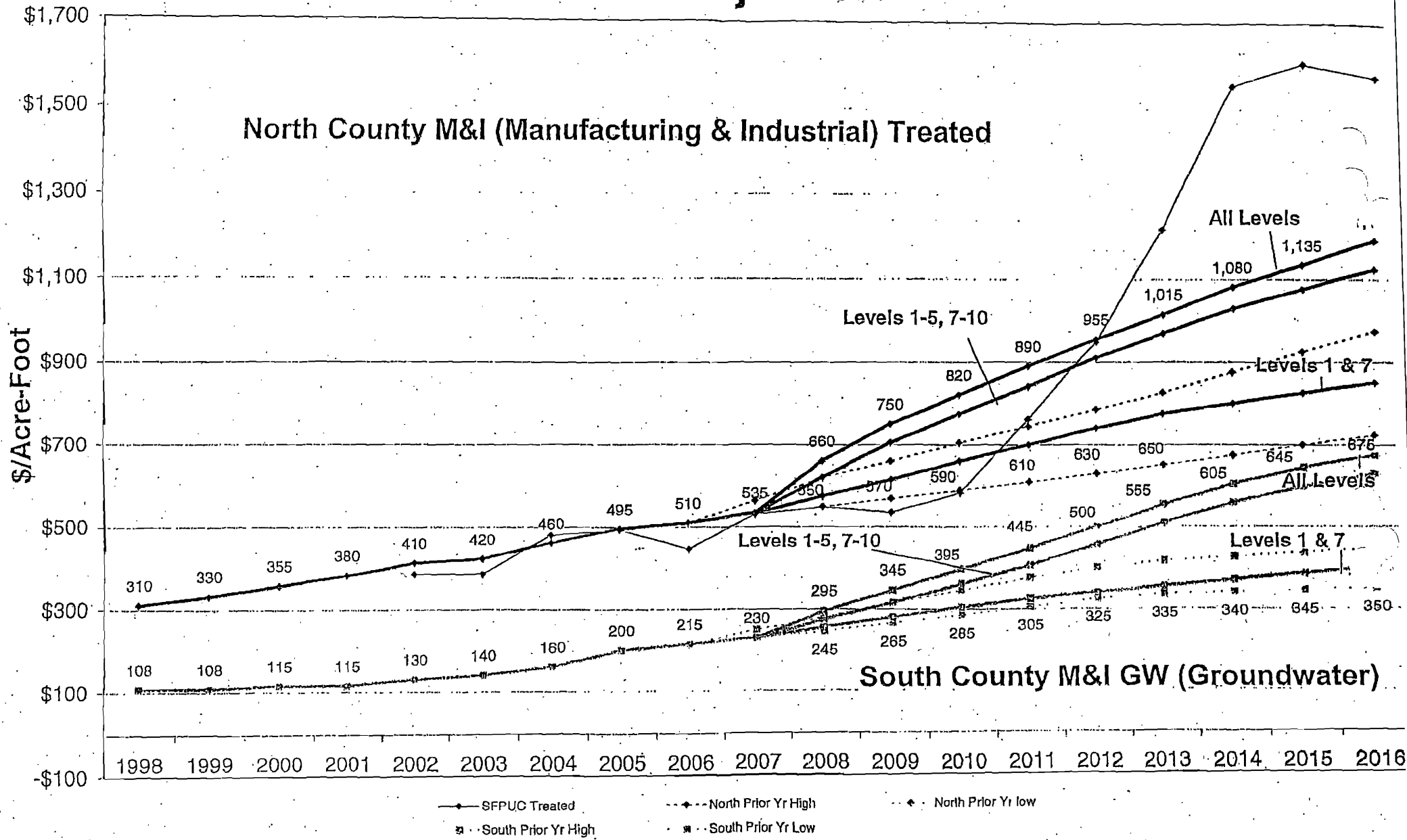
DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Administration Manual (CAM) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class ¹	Description	Implementation Category	Implementation Action ³
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring. ²	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists. ²	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

-
- ¹ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number. (CAM 196.4)
 - ² For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens. (CAM 196.4)
 - ³ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration. (CAM 196.4)

Rate Projection



ATTACHMENT D

SAN JOSE MUNICIPAL WATER SYSTEM TRANSFERS TO THE GENERAL FUND SINCE 1995-1996

<u>Fiscal Year</u>	<u>Rate of Return Transfer</u>	<u>In-Lieu Fee</u>	<u>Overhead Transfer</u>	<u>Other</u>	<u>Combined Transfer</u>
1995-1996	1,000,000	199,000	363,056		1,562,056
1996-1997	1,750,000	206,000	366,094		2,322,094
1997-1998	2,070,000	236,000	497,683		2,803,683
1998-1999	2,080,000	250,000	373,280		2,703,280
1999-2000	2,100,000	270,000	407,447		2,777,447
2000-2001	2,164,000	275,400	386,318		2,825,718
2001-2002	2,164,000	275,400	568,145	3,496 ¹	3,011,041
2002-2003	2,200,000	275,400	594,173		3,069,573
Ord. 26903 2003-2004	2,244,000	289,200	621,378		3,154,578
In Effect 2004-2005	1,437,083	404,200	696,679		2,537,962
2005-2006	1,184,899	439,600	431,901		2,056,400
2006-2007	1,282,190	452,800	476,210		2,211,200
2007-2008	567,509	511,000	759,343		1,837,852
2008-2009 ³	444,825	269,700	576,166		1,290,691
2009-2010	0	0	TBD ²		TBD
Total Revenue	\$22,688,506	\$4,353,700	\$7,117,873	\$3,496	\$34,163,575

¹ 2001-02 Transfer to General Fund for Call Center

² Overhead Transfer determined by Finance Dept. based on City-wide allocation formula

³ Proposed in FY 2008-2009 Operating Budget